

TRS Horizons

Volume 1, No. 2, 2012
Montana Teachers' Retirement System

Your Voice Counts!

A message from TRS Executive Director Dave Senn



Over the last six months, TRS reached out to you, our members, seeking your input on a range of alternatives to address TRS' unfunded liability and \$633 million funding shortfall. We sent two editions of the *TRS Horizon* newsletter to 33,000 members, posted a survey online, and held outreach forums in person or by web video with groups in Billings, Bozeman, Broadus, Cut Bank, Glendive, Great Falls, Hamilton, Helena, Kalispell, Lame Deer, Poplar, Scobey, Troy, and Twin Bridges.

Our goal was to raise awareness and understanding of the funding challenges facing TRS, and then listen to your concerns and preferences for how to move forward. We want you to know that your voice made a difference! Your input will help us shape proposed legislation that will return TRS to an actuarially sound footing (see the TRS Board's proposal on page 2).

Funding Survey Results

As of early June 2012, 704 people logged into the TRS online funding survey. Of those, 94% were TRS members (70% active members, 24% retirees). A total of 548 people indicated their support for or opposition to specific funding alternatives. The sample size provides a 95% confidence level, with a +/- 5% margin of error.

By far the most popular option, with 95% in favor, was increasing the state contribution rate by 1.0%. Similarly, 90% of respondents favor increasing the employer contribution 1.0%. But our members also support raising their own contribution rate by either 0.5% (83% favor) or 1.0% (69% favor). Other strongly supported options include raising early retirement age to 55 (82% favor), raising vesting from 5 years to 10 (80% favor), basing average final compensation on 5 years instead of 3 (75% favor), and raising regular retirement from 25 years of service at any age to 30 years of service at any age or age 60 (69% favor).

We also heard loud and clear that our members want **NO** changes to the multiplier used to calculate benefits or retirees' Guaranteed Annual Benefit Adjustment.

Thank you for participating and making your voice count! Be sure to take the [new TRS survey](#)—a quick query on the Board's funding proposal (see page 2).

Help TRS Save Money—Go Online

Each *TRS Horizons* costs less than 8 cents to print, but 40 cents to mail. With 33,000 members, that adds up! Please help us save money. How? It's easy: Send an email to us at trsoutreach@mt.gov with "outreach" as the subject line. We'll add your email address to our listserv, which we use only for newsletters and outreach materials. We won't give your email address to anyone else or use it to send confidential information.

The mission of the TRS Board is to promote long-term financial security for our membership while maintaining the stability of the fund.

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TRS BOARD NEWS

Darrell Layman, a retired teacher from Glendive, announced his departure from the TRS Board effective May 2012. Layman, whose service on the Board started in July 2004, is moving out of state to be closer to his children. "Darrell exemplified the qualities of a TRS trustee," said David Senn, TRS Executive Director. "His was a voice of insight, consideration, and integrity. We greatly appreciate Darrell's years of service." Governor Schweitzer has appointed Marilyn Ryan of Missoula to fill the retired teacher slot on the TRS Board.



Our deepest sympathies go to TRS Board chair Kari Peiffer who lost her husband Scott in a car accident on May 6 near Lakeside. The couple's two young sons have set up a fund for the Kidsports Complex in Kalispell in memory of their father, who was a gifted athlete and well-loved youth baseball coach in his community. Donations in Scott's name can be made at any First Interstate Bank.



TRS Seeks Input on Board's Draft Funding Proposal

The TRS Board's policy is to fully fund projected benefits at 100%. Once the system is fully funded, the policy calls for establishing a stabilization reserve fund equal to at least 10% of the actuarial accrued liability, to reduce the risk of future recessions leaving statutory contribution rates insufficient to actuarially fund TRS. The changes below will achieve this goal over the long term. Once the system is fully funded, the Board's policy calls for a combined employee and employer contribution rate equal to the normal cost (currently, 9.64%), plus 1.0%, for a total of 10.64% (current statutory rates are 17.11%). Based on the July 1, 2011, actuarial valuation, the employer contribution rate would have to increase by 3.53% to amortize the unfunded liability over 30 years. We expect this rate to rise again after the next actuarial valuation (July 1, 2012).

The Board's proposal includes changes that would affect current TRS members (outlined below) and another set of changes that would affect future hires to TRS (as described in the next column).

No changes will take effect unless enacted by the State Legislature.

Changes Affecting Current TRS Members

1. Increase the employee contribution rate from 7.15% to 8.15%. Set triggers to return the employee contribution rate to 7.15% once TRS has reached an actuarially sustainable funding level.
2. Secure funding sufficient to reduce the amortization period to a point where the system is sustainable and will over time become actuarially sound, and eventually fully funded. This could include an increase in the employer contribution rate, an increase in the state supplemental contribution rate, a one-time transfer of surplus reserves from school districts' retirement funds, annual lump-sum payments such as the Governor's proposal to transfer \$25 million per year from state land revenues, or a combination of additional funding sources.
3. Other minor plan changes may also be considered. One possibility might be raising early retirement age from 50 to 55.



Changes Affecting Future Hires

Changes to benefits for new entrants to TRS will not produce substantial savings in the short term, but such changes are necessary to ensure that future members will receive benefits that are sustainable and actuarially funded. Any new tier for future entrants must also support recruitment and retention of qualified educators.

1. Set employee contribution rate at 8.15%, with triggers to increase/decrease the rate to maintain an actuarially funded system.
2. Set eligibility for unreduced retirement benefits at age 60 with 5 or more years, or any age with 30 years (eliminating 25-year retirement at any age). Or a rule of 90 where age plus years of service must equal 90 before a member is eligible for unreduced retirement benefits.
3. Raise early retirement eligibility to age 55 (instead of 50).
4. Base average final compensation on 5 highest consecutive years' earnings (instead of current 3 years).
5. Keep multiplier at 1.6667% for members who retire with less than 30 years of service. Raise it to 2.0% for members who retire with 30 or more years of service.
6. Specify that members who are eligible for unreduced service retirement benefits are not eligible for disability benefits.
7. Limit eligibility for unreduced survivor benefits to members who die while an active contributing member or within one year of leaving active service. This would exclude anyone who is vested and dies more than one year after terminating TRS-covered employment.
8. All other plan features would remain as they are currently.
9. Freezing the current plan and moving all new entrants to a 401(k)-type Defined Contribution (DC) or hybrid plan would drastically increase costs to the state and reduce retirement financial security. The Board decided to not pursue these options.

WE NEED YOUR INPUT!

Now that you've seen the changes being considered by the TRS Board, tell us what you think.

Go to

www.surveymonkey.com/s/TRSproposal
to take our quick survey on the Board's proposal.
MAKE YOUR VOICE COUNT!

Other Proposals Focused on TRS

The TRS Board's funding proposal isn't the only horse in the race. With six months to go before the opening gavel on the 2013 Legislative Session, several other proposals are making the rounds.

In May, the Governor's Office of Budget and Program Planning (OBPP) released its proposal to fund the TRS pension plan. Budget Director Dan Villa presented the proposal at the May 11 TRS Board meeting in Helena. The OBPP proposal would:

- Increase employee contributions by 1.0%.
- Authorize a one-time transfer of \$14.7 million in surplus reserves from school districts to TRS.
- Increase the state contribution to TRS by \$25 million a year from state trust land revenues.

Also, legislative staff at both the Legislative Services and Legislative Fiscal Divisions are preparing reports outlining the likely impacts of different scenarios.

Finally, legislators themselves are talking up their own ideas, and we will likely see a spate of bills focused on pension funding. Past bills likely to be recycled for the 2013 Session include proposals to (1) dedicate increases in Coal Trust Fund revenues to TRS until the system is back on sound footing, (2) freeze TRS' existing defined benefit plan and move all new hires into a cash balance plan, or (3) move all new hires into a defined contribution (401(k)-style) plan.

We encourage you to follow legislative actions that affect your retirement system. Visit with your local candidates and state legislators to find out their views on pension issues. Be sure to share your own thoughts with them as well.

Legislators Study TRS Funding Proposal

TRS was on the agenda when members of the Legislative Finance and State Administration and Veteran Affairs (SAVA) committees met June 12 at the Capitol in Helena. Our actuaries from Cavanaugh Macdonald, LLC, provided testimony, explaining the finer details of TRS' funding trends and \$633 million shortfall.

TRS Director Dave Senn also testified before the joint committees, summarizing our outreach and survey findings and explaining the TRS Board's funding proposal (see page 2). Legislative staff informed the committees about contract rights and the constitutional requirement that the state's public pensions be "funded on an actuarially sound basis."

The committees authorized TRS to draft formal legislative proposals, but offered no support for one proposal over another to fund TRS. The SAVA committee meets again August 7. A list of SAVA

committee members and their contact information is available through the Montana Legislature web site at: <http://leg.mt.gov/css/Committees/Interim/2011-2012/State-Administration-and-Veterans-Affairs/default.asp>

TRS Board Members

<u>Member</u>	<u>Term Expires</u>	<u>Email</u>
Kari Peiffer, chair <i>Active classroom teacher, Kalispell</i>	July 1, 2017	KPeiffer@mt.gov
Marilyn Ryan <i>Retired teacher, Missoula</i>	July 1, 2015	TBA
Jeff Greenfield <i>Active member, Shepherd</i>	July 1, 2016	JGreenfield@mt.gov
Scott Dubbs <i>Active member, Lewistown</i>	July 1, 2013	SDubbs@mt.gov
Robert Pancich <i>Public member, Great Falls</i>	July 1, 2014	RPancich@mt.gov
James Turcotte <i>Public member, Helena</i>	July 1, 2015	JTurcotte@mt.gov

New Retirement Planning Tutorials Online!

Your benefit officers at TRS headquarters recently updated several video tutorials to help you plan and prepare for retirement.

Videos on the following topics are found under the Members tab at www.trs.mt.gov:

- [Account Information](#)
- [Benefit Estimator](#)
- [Retirement Application](#)
- [Retirement Education](#)
- [Retirement Termination Pay](#)
- [Service Purchase](#)

Click on the Employers tab to view the following video:

- [Employers' Retirement Termination Pay](#)

Tutorials range from 4 to 15 minutes in length; most run about 8 to 10 minutes. You can also download pdfs of the slides used in each tutorial to read at your convenience.

You'll need Windows Media Player or QuickTime to view the videos. Be sure to turn up the volume on your computer's speakers.

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Upcoming Events

August 8 and 9 — SAVA Committee meeting on TRS and MPERA
funding proposals, Helena
September 28 — TRS Board meeting, Helena

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1992, alternative accessible formats of this newsletter will be
provided upon request.***

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TRS is *your* retirement plan. We encourage you to stay informed on the issues and legislative actions that affect the retirement security you've earned. This *TRS Horizons* newsletter contains important information about a proposed increase in contribution rates and other changes to your pension plan. Read the enclosed articles, contact us if you have questions or concerns, and talk with your elected representatives.

**INSIDE: TRS Proposes
Changes to Your Plan**

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